



NEWS TO USE

A newsletter for PERSI Employers

February 2004

- Contribution rates go up July 2004
- New Class 3 teacher definition

Contribution rate changes July 2004 - 2006

Investment markets improve but planned PERSI employee and employer rate increases are still necessary to meet actuarial funding levels

After one of the longest and worse bear markets in history, the investment markets appear to have turned a corner within the last several months.

PERSI ended 2003 with assets of \$7.519 billion (an all-time high), a calendar year 2003 return of 25.5%, which is PERSI's best-ever

calendar year return, and an investment return of 17.6% as of January 19, 2004.

This is definitely good news, but even with such recent performance, PERSI's funding is still lagging due to the previous several years. As of our latest actuarial valuation (based on June

30 2003 data), PERSI was 83.5% funded. Because of this, we must go ahead with the first of the scheduled contribution rate increases we communicated to you last year. Employer and member contributions will increase according to the below chart.

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Scheduled PERSI Contribution Rate Changes

	Until 10-31-97	11-1-97 to 6-30-03	July 1 2003	July 1 2004	July 1 2005	July 1 2006
EMPLOYERS						
General Member Employer Rate	11.61%	9.77%	9.77%	10.39%	11.00%	11.61%
Police/PERSI Firefighter (Class 2) Employer Rate	11.85	10.01	10.11*	10.73	11.34	11.95
FRF Firefighters (Class D) Hired after 10/1/80 Employer Rate	27.25	27.25	27.35	27.97	28.58	29.19
FRF Firefighters (Class A, B) Hired before 10/1/80 Employer Rate	35.90	35.90	36.00	36.62	37.23	37.84
MEMBERS						
General Member Employee Rate	6.97	5.86	5.86	6.23	6.60	6.97
Police/PERSI Firefighter Employee Rate	8.53	7.21	7.21	7.65	8.09	8.53

* Public safety officer \$100,000 death benefit increased PERSI Class 2, A, B, and D employer contribution rates 0.10% effective July 1, 2003

New working definition of Class 3 teacher

The definition of a Class 3 teacher has not always been applied consistently by schools when reporting member class codes. The class 3 definition is important for PERSI's actuarial valuations as teachers are valued differently than class 1's (because they have longer life expectancies). The current class 3 wording in IDAPA 59.01.02 Rule 111 is primarily aimed at defining a teacher's half contract requirement.

To create consistency, PERSI has developed a new definition for class 3 that we can use at a working level without changing rules or law. Two school focus groups that recently met at PERSI agreed with this working definition.

New Class 3 Definition

Teacher (class 3 member): For the purposes of Idaho Code 59-1302(14)(A)(a) a teacher is considered to be working half time or more if the teacher's contract specifies that the engagement is half or more of a full contract. Other school employees such as Supervisor, Education Specialist, Assistant Principal, Principal, Administrator and Superintendent, who are certified to work with children in a school setting are also considered Class 3 members.

All other school employees not certified must meet the requirement of normally working 20 hours or more per week and will be coded as Class 1 general member.

Contribution rate changes

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Should future fiscal year investment returns be significantly better than assumed it may be possible to adjust or defer the rate increases, but we must at least proceed with the July 2004 increase. Conversely, if future returns do not meet assumptions, rates may have to be adjusted further.

If the rate increases continue as scheduled, by July 2006, they will have returned to 1997 rates. At that time PERSI was able to lower contributions due to the phenomenal investment returns of the mid-1990s.

How is PERSI's Funding Level Determined?

Each year, PERSI's Actuarial Consultant, Milliman USA, performs an actuarial valuation based on PERSI's Fiscal Year end figures. The valuation is a statistical projection of promised benefits to be paid by the system, and an analysis of PERSI's ability to meet those benefit payments. It is a point-in-time snapshot of PERSI's funding health, and is used to determine contribution levels and gain sharing availability.

Through the actuarial valuation, PERSI's funding status is calculated. Factors that enter into this are: investment gains or losses, growth in salaries, and various demographics such as: gain or loss in membership, number and age of retirees, life expectancies of members, years of service, age of entry into PERSI, cost of retiree COLAs, and more.

As of June 30, 2003, PERSI had an Unfunded Actuarial Liability of \$1,248.9 million and was 83.5% funded. (This includes the COLA granted to retirees for the year.) The Amortization Period estimated to pay off this UAL was 19.4 years.

The Funding Ratio is determined by dividing Actuarial Assets by the Actuarial Liabilities. For FY2003:

Actuarial Assets of \$6,297.8 million divided by Actuarial Liabilities of \$7,546.7 million equals a Funding Ratio of 83.5%.

PERSI's funding status is good and continues to improve. PERSI's funding level reacts to market and demographic changes. In 2000, PERSI was overfunded with a funding ratio of 116%. This was when we initiated gain sharing for employers, retirees and members.

Funding Level and Contribution Rates

Idaho Code states that if the PERSI's amortization period exceeds a 25-years, PERSI must increase contribution rates to bring the amortization period within 25 years. In July 1, 2002 the UAL did exceed 25 years, and the Board raised contribution rates, but to ease the impact on members and employers delayed the increase for two years and phased the increase over three years.

One of PERSI's primary goals is to maintain stable contribution rates at levels required to fund benefits.